Founder centrality, management team congruence and performance in family firms: A Kenyan context

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FOUNDER CENTRALITY, MANAGEMENT TEAM
CONGRUENCE AND PERFORMANCE
IN FAMILY FIRMS: A KENYAN CONTEXT

LOUISE KELLY
Alliant International University
San Diego, CA 92131, USA
lkelly@alliant.edu

PETER M. LEWA
United States International University
Nairobi, Kenya

KINYUA KAMARIA
Alliant International University
San Diego, CA 92131, USA

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Applying social network theory to family business, founder centrality has been generally shown to positively affect top-management-team congruence and, as a consequence, firm performance. This study applies social network and strategic leadership theory to an examination of founder centrality in family businesses. It focuses on family businesses in Kenya, and examines the impact of the founder’s influence on management team congruence in the three strategic areas of culture, vision, and goals. The discussion considers the research findings in Kenya of a negative influence of founder centrality on management team congruence and firm performance. The study concludes with a presentation of some possible reasons for this dynamic in developing countries like Kenya, where family business is prevalent, and in which the founder plays a central role.

Keywords: Family business; founder centrality; management team; strategic planning; strategic decision making; social networks; strategic leadership theory; congruence; performance.

1. Introduction

The goal of this study is to contribute to the understanding of the interplay in family firms, founder influence, management team (MT) behavior, and business performance in the high power distance, high collectivist culture common in many developing countries such as Kenya. Using concepts from social network theory and strategic leadership theory, the study will examine the proposition that high levels of founder influence in a family business lead to high levels of integration of the MT, which in turn lead to superior firm performance. In addition, using research data from Kenya, the relevance of Western models, such as
Strategic leadership theory, to family business research in developing countries will be examined (McSweeney, 2002; Mobley and McCall, 2001; Donckels and Lambrecht, 1999). Strategic leadership studies (Hambrick, 1995) state that CEO and MT traits and behavior affect firm performance. But strategic leadership theory has rarely been applied in family business research, nor has it been tested extensively in developing countries (Finkelstein and Hambrick, 1996). Yet, family firms dominate the economies of developing countries, typically making up from 80–90 percent of local businesses (Frijns and Van Vliet, 1999). Family firms serve as an important source of economic growth in these countries (Astrachan and Shanker, 2003), and provide a rich field for research, and potentially an important opportunity to validate accepted business theories in a non-Western context.

We focus on strategic leadership and the management team instead of upper echelon and TMT because this seems more in keeping with the nature of a family business. The original upper echelon theory was developed in the context of large, complex organizations. The concept of a TMT is more suitable to these large, multi-unit businesses as well. We argue that there is a definite phenomenon of strategic leadership at the family business level, that there are individuals making choices that affect the survival of the firm, and that these choices have to do with attaining long-term goals and direct the allocation of a significant portion of the firm’s resources. Therefore, they are by definition strategic (Chandler, 1962).

The present study extends strategic leadership theory by using social network to characterize the influence of the founder of a family business on the MT and on firm performance (Wasserman, 2003; Escher et al., 2002). Propositions based on these theories will be applied to data collected in Kenya. It has been argued that Africa’s biggest problems are marginalization and lack of competitiveness, so looking at how leadership works in the African family business context is of key importance for policies and management applications that will further economic development in this continent. According to Mills, “Africa needs more investment and economic growth. It needs less theater and, certainly, no more pity” (Mills, 2008).

Kenya was chosen as the focus of family business research in a developing country because it is one of the most important countries in Africa, in particular for its economic growth potential (USAID/Kenya, 2000). In 2007, the Kenyan government published Vision 2030, an ambitious economic blueprint, which if implemented, has the potential of putting the country on the same track as the Asian Economic Tigers. However, all these economic improvements now are in a fragile state following the political uncertainty engendered by the aftermath of the disputed 2007 presidential polls.

Nevertheless, Nairobi, the capital, continues to be the primary communication and financial hub of East Africa because it has the region’s best transportation linkages, communications infrastructure, and trained personnel. Many foreign firms maintain a regional branch or representative offices in the city. Significantly, in March 1996, the presidents of Kenya, Tanzania, and Uganda reestablished the East African Community (EAC). The EAC’s objectives include harmonizing tariffs and customs regimes, free movement of people, and improving regional infrastructures. Therefore, the economic growth of Kenya could have a significant impact on East Africa.
Although Kenya is well placed to serve as an engine of growth in East Africa, its economy has been stagnating for several years because of economic management issues and an uneven commitment to reform (Macculloch, 2001). Family control is very pronounced in smaller firms in Kenya, and this suggests sustainable economic growth needs to focus on the family firm as well as large multinational enterprises (Block, 2002). Ninety-eight percent of existing firms in Kenya, or 1.1 million firms, are defined as micro or small or medium sized enterprises (SMEs) and the majority have a family influence (Ramachandran and Shah, 1999). These firms account for 50 percent of the country’s total employment and 43 percent of all manufacturing industry revenues (Frese, 2000).

Kenya’s unique situation as an anchor for growth in East Africa, coupled with its puzzling inability to capitalize on its substantial economic assets, as well as its preponderance of family businesses, all present an intriguing opportunity for study. Perhaps there is a potential “African tiger” that lies dormant in Kenya that, should it be unleashed, could serve as a model and galvanize economic development in the continent. All of these factors motivated this study which looks at family firms and how leadership is affecting performance. The results will definitely have relevance to the countries in the EAC and could extend to other developing countries with a similar preponderance of family firms and a high collectivist culture and high power distance.

2. Theory Development

2.1. Strategic leadership theory and social networks analysis

The strategic leadership perspective (Hambrick and Mason, 1984) views the firm as a reflection of the characteristics and actions taken by the team of managers central to the firm, also known as the top management team (TMT). For this research study, we have modified the idea of the TMT to simply the management team (MT), to reflect the less hierarchical nature of the small and medium family firm. The MT is the group of managers who aids the leader in deciding the strategic direction of the organization (Bantel, 1994; Hambrick, 1994; Hambrick and Mason, 1984). According to Smith et al. (1994), the power to control the direction and performance of the firm makes the MT influential in the firm.

The importance of the TMT to organizational effectiveness is firmly established in strategy literature. Cyert and March (1963) argued that top-level management adds value to the organization primarily through strategic decision making. The work of Andrews (1971) and Child (1972) focus on the importance of top-level managers, especially the CEO, to the well-being of the organization is also well established. These earlier works on the TMT led to the development of the strategic leadership perspective that has continued to guide research over the past two decades.

Several studies have looked at MT behavior and characteristics from the point of view of their demography, interaction, and impact on the success of the firm (Amason and Sapienza, 1997; Amason, 1996); diversity and entrepreneurial orientation (Orlando and Johnson, 1999); demographic diversity in decision-making groups (Elsass and Graves, 1997); team heterogeneity and firm performance (Murray, 1989); and racial diversity, business strategy, and firm performance (Richard et al., 2000).
In this study, the strategic leadership perspective is extended to the family business to investigate the impact of the MT members on the firm’s performance. The collective dynamic of the MT is viewed as having a direct impact on the direction and performance of the firm (Ensley et al., 2005). The present study moves the discussion beyond previous strategic leadership studies on MT demographics, education, gender, and functional background (Pettigrew, 1992) by adding the methodology of social networks analysis to track patterns of leader influence on the group. In doing so, we hope to gain insight into the social interactions of the MT and how the MT’s congruence affects family firm performance. This is a complementary approach to Hambrick’s (2005) recent work on strategic decision making and leader behavior, which puts more emphasis on the leader’s role in forming group interaction.

Given the importance of the MT to the long-term survival of the family firm, it is imperative managers and researchers understand the relationship between the leader’s role, the MT social networks, and ultimately firm performance. Research has shown that environmental constraints make it extremely difficult for any one manager on her/his own to be responsible for decision making (Finkelstein and Hambrick, 1996; Lawrence and Lorsch, 1967). Strategy making is a shared activity in a majority of organizations (Finkelstein, 1992; Hambrick, 1986; Thompson, 1967), and the leader can enrich the quality of this activity by fully utilizing the MT members’ knowledge.

2.2. The family business

There are many definitions of “family business” (Cliff and Jennings, 2005). For this study, a family business is defined as one that meets three criteria. First, there is significant family ownership, in that the family owns all or a controlling share of the firm. Second, there is significant family involvement in management. Third, ownership and leadership are expected to pass to future family generations.

How family firms differ from entrepreneurial or professionally managed firms has been a concern of studies that have focused on family businesses (Bird et al., 2002). Some studies question whether there are significant differences (Chua et al., 1999). However, many find that family firms differ from non-family firms in key areas (Aldrich and Cliff, 2003). These firms differ in terms of patterns of influence, organizational climate, and organizational processes (Hoover and Hoover, 1999). Family-owned businesses generally tend to operate under a system of “informal work contracts” between the generations. One of the differences in family business, and a premise upon which this article is based, is that the role of social relations is very prominent and influential in family business. This is well documented in the research (Chrisman, Chua and Sharma, 2003).

These socially-based contracts are also trust-based and are generally understood in terms of long-term reciprocity. This can lead to the determination family firms have a more conservative attitude toward the business (Carlock and Ward, 2001). For example, a founder who is approaching his or her retirement years may step aside as the head of the firm, while at the same time insist his son or daughter run the firm in such a way as to protect his or her retirement income in the firm.
Family firms also may not have wealth maximization as their primary goal, they may focus on other social goals such as family employment or funding family education (Sharma et al., 1997). The research suggests the role of social influence and networks is even more pronounced in the family business than in non-family businesses.

Applying strategic leadership theory to family business, MTs presents a few challenges (Chrisman, Chua and Litz, 2003). When we consider the MT of a family business we are usually looking at a relatively small group of managers, perhaps four to 10, including the founder. This is especially true of the Kenyan firms in this study. In addition, the MT in a family business typically consists of family and non-family members. As such, the group dynamic of a smaller MT with family member participation may be different from a TMT in a larger or non-family firm. In particular, we expect the influence of the founder on MT congruence will be more pronounced, in part because of the leadership and influence the founder exerts on both the family and the business (Harvey and Evans, 1994). There is also the issue of size. A leader in a smaller group can have a greater influence on the group.

2.3. Founder centrality

The founder plays a strategic role in businesses in general (Gersick et al., 1997; Chandler and Hank, 1994) and in family businesses in particular (Kelly et al., 2000). This founder role includes forming the culture, defining and articulating a vision, and formulating strategic goals (Klein et al., 2005; Schein, 1983). The strategic management literature has studied the role of the founder in entrepreneurial firms (Eisenhardt, 1989; Mintzberg and Waters, 1982). However, the family firm literature has just begun to consider the link between founder behavior and the strategy of the firm, particularly as it is filtered through the behavior of the MT (Nordqvist, 2005; Dyer, 2003). In this study, we explore the role of the founder in a developing economy’s family businesses, using strategic leadership theory with the social networks concepts of centrality and congruence to understand the founder’s influence on strategic behavior such as the MT’s approach to culture, vision, and goals (Aldrich and Cliff, 2003).

Founder centrality refers to the founder’s key role in influencing the MT (Hambrick et al., 2005). We study how founder centrality affects the MT’s congruence (Ibarra, 1992), where congruence is understood as the degree of similarity among MT members in their perceptions of culture and vision, as well as commitment to strategic goals. Finally, we discuss how these two aspects of a family firm, founder centrality and MT congruence, affect firm performance.

We consider four different facets of firm performance: industry comparison, financial performance goals, corporate social goals, and family goals. We look at multiple performance measures through CEO self-report to capture some of the unique characteristics of family firms. With family firm research, there is a strong argument to analyze results beyond those covered by traditional financial measures of performance. This is because there is a need in the family business to accommodate family and community objectives, and these are often paramount goals and objectives of the founder.
Social network analysis (SNA) studies the underlying patterns driving people’s social interaction. SNA research has looked at issues such as power in organizations (Brass and Burkhardt, 1992; Ibarra and Andrews, 1993), career advancement (Burt, 2003), and job satisfaction and job performance (Shaw, 1964). SNA suggests social processes produce important patterns of shared recognition among members of the same social group (Ibarra, 1992). In the family business context, social interactions among members of the MT create shared learning (Adler and Kwon, 2002). The family as a social unit is an important consideration in these firms’ MT network (Ensley et al., 2005). Family members will typically interact differently and will sway strategy toward family goals. Our study further extends this social network literature into the behavior of the founder and the family firm’s MT, building on recent studies (Inkpen and Tsang, 2005; Collins, 2003). We suggest these social processes and network affect the performance of the firm (Baker, 2000).

Social capital for a family business in this study refers to the collective value of the internal social networks and the inclinations that arise from these networks from the processes of give-and-take of information and the collective action that derives from the level of congruence of the MT (Brass, 2003). The tight social networks in a business resulting from family ties can both create or destroy value for the firm (Laere and Heene, 2003). Specifically, this study uses the notion of centrality, which is a path-based concept in SNA (Ibarra, 1993). We use degree of centrality, which counts the number of people any given member of the group is connected to. We use nodes to designate actors in a network. In these cases, individual members of the MT (including the founder) are each a node, so degree centrality counts the number of nodes adjacent to a particular node. Centrality is correlated with many different factors in the group. For example, people with high group centrality tend to have higher power and influence on the group (Coleman, 1988). Centrality dimensions have a significant foundation in social network theory and have been used extensively in management research (Florin et al., 2003). In this study, we look at the centrality of one particular member of the group, the founder, and the effect of his or her centrality on the views and behavior of the MT.

Founder influence on strategy in this study concerns the organization’s ability to assess or reassess its mission, goals, resources, culture, and commitment to a strategic vision in light of the external environment (Carpenter and Fredrickson, 2001). There is evidence the personality, values, and beliefs of the founding generation inevitably influence the corporate culture of family businesses (Harvey and Evans, 1994). Kelly et al. (2000) proposed and empirically demonstrated (Athanassiou et al., 2002) that founder centrality is critical to the strategy process in family firms. This present study assumes, on the basis of the studies mentioned, that founder centrality influences the organization’s vision, culture, goals, and performance.

The founder centrality concept views the founder and managers who make up the MT of a family business as a social network (Perry-Smith and Shalley, 2003; Aldrich et al., 1987). This network includes managers who belong to the founder’s family and also non-family professional managers hired for a particular role (Anderson and Jack, 2002). The structural position of the founder in the family firm’s MT network defines the extent to which the
founder is central in the group communication and decision process (Burt, 2003). High founder centrality exists when members of the MT network seek advice more from the founder than from any other manager before making strategy decisions (Wasserman and Faust, 1994). Thus, the founder’s role in the MT is reflected in his or her centrality in the network (Cooper, 2001). As leaders, family members may prove to be formidable figures within the firm because they can derive legitimacy from two sources: their position in the family and their position in the firm’s management (Dension et al., 2004).

2.5. Relationship of founder centrality to MT congruence

Based on the foregoing discussion, the following hypotheses are proposed concerning founder influence on MT congruence in the areas of perceptions of firm culture and strategic vision, as well as commitment to the firm’s strategic goals:

**H1.1:** Founder centrality is positively related to congruence among the MT regarding perception of the firm’s culture.

**H1.2:** Founder centrality is positively related to congruence among the MT regarding perception of the firm’s strategic vision.

**H1.3:** Founder centrality is positively related to congruence among the MT regarding commitment to the firm’s strategic goals.

2.6. Founder centrality, MT congruence and firm performance

The extent to which MT members are committed to the firm’s culture, vision, and goals depends on how the founder initiated and guided the strategy process in the firm (Westphal, 1999). Recent research on MT consensus and effective strategy making suggests that the social process is key to attaining commitment and congruence (Shaw et al., 2005; Chatteropadhyay et al., 1999) and that the results of the social process affect firm performance (Boone et al., 2005; Miller et al., 1998).

Previous research demonstrates firm performance outcomes can be affected by the founder’s role in the MT (Jayaraman et al., 2000; Daily and Dalton, 1992; Hornsby et al., 2002; Gulati et al., 2000). The strategic leadership literature suggests there are problems when there is a lack of MT congruence, which can detract from the thoroughness and effectiveness of the strategy process (Boone et al., 2004; Knight et al., 1999; Miller et al., 1998).

If founder influence is high, ownership and control of family firms are often concentrated, and members of the family are usually found in the dominant coalition; making the MT a homogeneous team. In this context, Demsetz and Lehn (1985) argued that the concentrated equity position and control of management, including the founding family’s historical presence, give the family an advantageous position for monitoring the firm. Also, social or relational governance mechanisms are usually strong and long-lasting in family businesses. Traditions, bonding relationships, loyalty, and altruism determine how resources are used to create value for owners of family firms (Harvey, 1999b). Harvey (1999a) observed “the key features of the family system that usually have the greatest influence on the operation of the
firm are implicit, social ties among the family members.” Typically, these social ties lead teams to engage in more frequent and less formal communication, which Smith et al. (1994) found to be more effective and typical among family members. Also, family members know each other very well and therefore, can draw on one another’s expertise to apply it when and where it is needed.

Based on the foregoing, the following hypotheses are proposed concerning founder influence on firm performance derived from founder centrality with respect to perceptions of firm culture and strategic vision, as well as commitment to the firm’s strategic goals:

H2.1: Founder centrality with respect to firm culture will be positively related to organizational performance.

H2.2: Founder centrality with respect to strategic vision will be positively related to organizational performance.

H2.3: Founder centrality with respect to commitment to firm goals will be positively related to organizational performance.

2.7. MT congruence and firm performance

A recent study by Mooney (2000) focusing on congruence in MTs described antecedents to conflict during decision making and the importance of MT integration, a term used in recent studies with a meaning similar to congruence. Another study by Li and Zhang (2002) studied founding team comprehension and MT integration in new technology ventures in China. Finally, Simsek et al. (2005), looked at modeling the multilevel determinants of MT behavior integration. All of these studies affirm the positive influence of MT integration on performance. However, it should be noted none of these studies was done on family businesses.

The following hypotheses were proposed to determine the application of the aforementioned research to the relationship of MT congruence and firm performance in family businesses, and in particular to family businesses in a developing country.

H3.1: In family firms, the congruence of MT perceptions of the firm’s culture will be positively related to organizational performance.

H3.2: In family firms, the congruence of MT perceptions of the firm’s strategic vision will be positively related to organizational performance.

H3.3: In family firms, the congruence of MT commitment to the firm’s strategic goals will be positively related to organizational performance.

3. Methodology

3.1. Sample

A stratified sample was obtained of 45 Kenyan family businesses with annual revenues of $200 million or less, and in total 225 managers were surveyed. Questionnaires were sent to 155 founders of family firms based on a list of family firms who were members of two local chambers of commerce and industry in Nairobi, Kenya. From this original list of 155, 61 responded. These 61 founder/CEOs completed the questionnaire and committed to have
every member of their MT fill in a similar questionnaire, for the purpose of supplying the
required social network information. Forty-five of the 61 founders who responded provided
usable data, resulting in a 29 percent response rate.

To use this methodology effectively, it is essential to capture 100 percent of the MT
responses to be able to set up a reciprocal matrix with each respondent’s rating. Data from
16 of the 61 respondents was incomplete and therefore these 16 respondents had to be
discarded.

The average number of employees in the family businesses was 65 and the businesses
had average annual revenue of $35 million. The average age of the family firms was 17
years.

The majority of the founders in this study are from the Kikuyu tribe (87%) and there were
also founders who were Kenyans of Indian descent (13%). We did not analyze differences
according to these ethnic backgrounds, and this could be a variable of interest in further
work on Kenyan top founders and top management teams.

3.2. Measures

Founder centrality. With data from the founders and the MT members, an individual
founder centrality score was calculated using the social network degree centrality measure
(Freeman, 1979). Centrality degree is the count of the number of ties to other actors in the
network and the eigenvalue distance from one actor to another in the network.

UCINET software was used to capture the degree of influence of the founder on the MT.
We derived a separate founder centrality score for each of the network themes: perceptions of
culture and strategic vision, as well as commitment to strategic goals. The types of questions
that were asked on the instrument are described in the following paragraphs.

First, the founder/CEO was asked to list his or her own name as Item Number 1, and
then to list and identify the members of the MT by name as Items 2 through 7, based on
the following question, and also to indicate which members of the MT were also family
members:

Please list your team of top managers. These are the managers who
make up the close group within your company on whom you rely to
make company-wide strategic decisions on an ongoing basis. These are
decisions made formally or informally and may include major adminis-
trative choices (such as reward systems and structure) as well as busi-
ness domain (such as products, services, geography) and competitive
choices.

The first question was followed by specific questions about perceptions of firm culture,
perceptions of strategic vision, and commitment to strategic goals. The founder/CEO was
to rate the degree of similarity in perceptions and commitment of each member of the MT to
those of the founder/CEO, using a five-point scale from “Not at all similar” to “Extremely
similar.” An example of the question format follows:

Corporate culture refers to a company’s values, beliefs, traditions, operating style, and
internal work environment.
How similar to your perception of the firm’s culture is the perception of the firm’s culture held by each manager on your top-management-team? (ignore your own name)

<table>
<thead>
<tr>
<th>Manager</th>
<th>CEO</th>
<th>Not at all Similar</th>
<th>Extremely Similar</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<td>2</td>
<td>1</td>
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<td>9</td>
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<td>3</td>
</tr>
<tr>
<td>10</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

Once the founder answered these questions, the same survey was supplied to the MT members designated by the found/CEO, with the names of the MT members, including the founder/CEO, now listed with each question. Each MT member was asked to rate levels of similarity in the perceptions of firm culture, perceptions of strategic vision, and commitment to strategic goals of each of the other MT members, including the founder/CEO. Each member’s questionnaire was self-contained and no individual responses were to be revealed to any other respondent.

**MT congruence.** The concept of individual centrality has a group equivalent, which is called centralization. Centralization refers to the extent to which the group is focused around one node. In this research, the most central node is the founder. The SNA concept of centralization corresponds, for the purposes of this study, with the idea of MT congruence (Leanna and Van Buren, 1999). We use MT congruence to denote the degree of similarity among MT members with respect to their perceptions of firm culture and strategic vision, as well as their commitment to the strategic goals of the firm. Each of these themes, perception or commitment, implies its own social network and, as a consequence, can be assigned a unique group centralization score.

In this study, we are not aggregating these scores because social network methodology treats each as a distinct network with its own properties (Coleman, 2003). Therefore, references to MT congruence must specify which aspect we are looking at: perception of culture, perception of vision, or commitment to goals. We use perception of culture and vision because this allows us to evaluate the degree of similarity among MT members without having to define or ascertain the actual content of the vision or culture of the firm (Denison et al., 2004). We treat vision and culture in the family business like a “black box,” not knowable for the purposes of this study. At the same time, we can determine how united or congruent the team is with respect to these issues (Mullen and Copper, 1994). Recent research on MTs has used the aggregate term “behavioral integration” to refer to a concept very similar to these specific group measures of congruence (Zeki et al., 2005; Simsek et al., 2005; Hambrick, 1995).

With the data provided by the MT members, we evaluated MT congruence using a social network degree-centralization measure calculated with UCINET software that looks at the
distance from one member to another in their perceptions of culture and vision, as well as commitment to goals. Centralization is the difference between the number of links for each node divided by the maximum possible sum of differences. A centralized network will have many of its links distributed around one or a few nodes, while a decentralized network is one in which there is little variation between the number of links each node possesses.

We measured centralization for each network separately, which yields a centralization or group congruence measure for each network according to the issue. The MT includes the CEO/founder. The questions used for this centralization measure were the same as those used for founder centrality. The difference between the two is that one is an individual centrality measure (founder centrality) and the other is a group measure of centralization (MT centralization). However, both are derived from the same matrix of values constructed from the answers to the types of questions described above.

Performance. In family firms, other measures may be important in evaluating successful performance. For example, family members’ concerns with continuous involvement and leadership in local community affairs or with the family’s positive local societal visibility may be as important as financial performance. This does not suggest financial performance is unimportant in the family business, but additionally there is a commitment to achieving some higher or family-based purpose.

For this research, we looked at performance in terms of financial, social, and family goals, and asked the founders to rate their relative performance on these goals. Relative in some cases meant relative to their competitors and in other cases relative referred to a relationship with their own stated goals. There is a clear tradition in strategic management, whether one is looking at subsidiary performance or non-publicly traded firms to look at non-objective measures of performance (Dess and Robinson, 1984). If this were not the case, researchers would be unable to effectively study subsidiaries or non-publicly traded firms, which would exclude important units of economic analysis. In the context of developing countries, asking for self-report of objective earnings figures would most likely lead to misleading information because of the lack of transparency in these countries regarding tax and disclosure issues.

We drew data from the founder on each firm’s financial performance (relative to their industry and relative to their own goals) and social and family-oriented performance relative to articulated or implied goals. Only the founder’s perceptions were used as a dependent variable, although the independent variables included group measures to minimize common method variance.

Control Variables. Finally, we controlled for company size (measured in terms of the logarithm of the annual revenue of the firm) to make sure it was not the firm size that was affecting the leadership influence on the management team and performance.

4. Results

Table 1 provides the means, standard deviations, and correlations for the study variables. Regression results for the test hypotheses are presented in Tables 3 and 4. Regression used was simple linear regression.
Hypothesis 1 states founder centrality will have a positive relationship with MT congruence around culture, vision and goals. To test this hypothesis, we ran three regressions, each with control variables for firm size and founder years of tenure, for the three versions of the dependent variable of centralization of the MT for issues of culture, vision and goals. Table 2 summarizes the results of the regression of the three founder centrality measures on

Table 1A. Descriptive statistics and correlations: Founder/CEO centrality and MT congruence.

<table>
<thead>
<tr>
<th>Mean</th>
<th>Std. Dev.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>MT culture perception</td>
<td>69.75</td>
<td>42.91</td>
<td>74.29</td>
<td>50.92</td>
<td>−0.459***</td>
<td>−0.528***</td>
<td>−0.479***</td>
</tr>
<tr>
<td>MT vision perception</td>
<td>71.12</td>
<td>43.52</td>
<td>61.13</td>
<td>42.53</td>
<td>−0.421*</td>
<td>−0.343−0.359*</td>
<td></td>
</tr>
<tr>
<td>CEO/founder vision</td>
<td>57.20</td>
<td>36.70</td>
<td>−0.381</td>
<td>−0.527***−0.487***−0.302*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO/founder goals</td>
<td>42.18</td>
<td>32.55</td>
<td>−0.165</td>
<td>−0.170</td>
<td>−0.343*−0.230−0.205*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MT goals</td>
<td>45.48</td>
<td>32.53</td>
<td>−0.101</td>
<td>−0.110</td>
<td>−0.171*−0.198−0.273*−0.441**</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001 (1-tailed), n = 45

Table 1B. Descriptive statistics and correlations, financial, social and family-oriented performance.

<table>
<thead>
<tr>
<th>Mean</th>
<th>Std. Dev.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>2.26</td>
<td>0.82</td>
<td>2.45</td>
<td>1.23</td>
<td>−0.404**</td>
<td>2.64</td>
<td>1.80</td>
<td>−0.189</td>
<td>0.254</td>
<td>75.72</td>
<td>27.86</td>
</tr>
<tr>
<td>Social performance</td>
<td>80.40</td>
<td>25.64</td>
<td>0.237°</td>
<td>0.215°</td>
<td>0.413**</td>
<td>0.641***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family-objectives performance</td>
<td>55.21</td>
<td>38.70</td>
<td>0.189</td>
<td>0.271°</td>
<td>0.123</td>
<td>0.125</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO/founder culture</td>
<td>3.81</td>
<td>1.05</td>
<td>0.100</td>
<td>0.074</td>
<td>0.072</td>
<td>0.087</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001 (1-tailed), n = 45
these three measures of MT centralization. Results show that Hypotheses 1.1, 1.2, and 1.3 were significant but negative. In general, founder centrality is a negative predictor of MT congruence. There is a negative relationship between founder centrality and MT member centralization based on perception of the firm’s culture (H1.1: \( p < 0.001, R^2 = 0.54 \)), perception of firm’s strategic vision (H1.2: \( p < 0.001, R^2 = 0.40 \)), and commitment to firm’s strategic goals (H1.3: \( p < 0.001, R^2 = 0.54 \)).

Hypothesis 2 states founder centrality will be positively related to organizational performance. Table 3 summarizes the results from the regression of the founder centrality on four family firm performance measures — (1) financial relative to industry, (2) financial relative to firm goals, (3) social relative to goals, and (4) family-oriented relative to goals — that were used to test Hypotheses 2.1–2.3. These were four separate simple linear regressions, with founder degree centrality being regressed on four different performance measures with a control for firm size.

Support was not found for Hypothesis 2.1, which posits the degree of founder centrality in perception of firm culture has a positive relationship to financial performance relative to industry (\( R^2 = 0.331, p = 0.01 \)), financial performance relative to goals (\( R^2 = 0.211, p = 0.05 \)), performance in terms of corporate social responsibility (\( R^2 = 0.325, p = 0.001 \)), and performance relative to family goals (\( R^2 = 0.475, p = 0.015 \)). The relationships were significant but negative.

Similarly, support was not found for Hypothesis 2.2 regarding the relationship of founder degree of centrality in commitment to vision and its relationship to financial performance relative to industry (\( R^2 = 0.566, p = 0.05 \)), financial performance relative to goals (\( R^2 = 0.221, p = 0.01 \)), performance in term of corporate social responsibility (\( R^2 = 0.419, p = 0.05 \)), and performance relative to family goals (\( R^2 = 0.018, p = 0.01 \)). Hypothesis 2.3 was also not supported. Instead, it was shown that the relationship is negative between the degree of founder centrality in the commitment to firm goals and financial performance relative to industry (\( R^2 = 0.214, p = 0.01 \)), financial performance relative to goals (\( R^2 = 0.082, p = 0.05 \)), performance in terms of corporate social responsibility (\( R^2 = 0.161, p = 0.01 \)), and performance relative to family goals (\( R^2 = 0.379, p = .05 \)). Therefore, founder centrality in Kenyan family firms has a consistently negative relationship to organization performance in the measures described above.

Table 2.

<table>
<thead>
<tr>
<th>Founder centrality</th>
<th>H1.1: perception of culture</th>
<th>H1.2: perception of firm’s strategic vision</th>
<th>H1.3: commitment to firm’s strategic goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>32.167***</td>
<td>25.645***</td>
<td>37.436***</td>
</tr>
<tr>
<td>Size</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Founder tenure in the firm</td>
<td>0.172</td>
<td>0.170</td>
<td>0.173</td>
</tr>
<tr>
<td>Size</td>
<td>0.158</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercept</td>
<td>0.545</td>
<td>0.404</td>
<td>0.543</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>16.363***</td>
<td>9.256***</td>
<td>16.219***</td>
</tr>
</tbody>
</table>

\( *p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001 \) (1-tailed), \( n = 45 \)
Hypothesis 3 states MT congruence will have a positive relationship to organizational performance. Table 4 summarizes the results from the simple linear regression of the MT congruence as measured by MT centralization on four family firm performance measures — financial relative to industry, financial relative to firm, social, and family-oriented goals — that were used to test Hypotheses 3.1–3.3. Support was found for Hypothesis 3.1 which posits MT congruence has a positive relationship to financial performance relative to industry ($R^2 = 0.321, p = 0.001$), financial performance relative to firm goals ($R^2 = 0.201, p = 0.01$), performance in terms of corporate social responsibility ($R^2 = 0.425, p = 0.05$), and performance relative to family goals ($R^2 = 0.465, p = 0.01$).

Support was also found for Hypothesis 3.2 which demonstrates the positive relationship between MT congruence and financial performance relative to industry ($R^2 = 0.556, p = 0.05$), financial performance relative to goals ($R^2 = 0.221, p = 0.01$), performance in terms of corporate social responsibility ($R^2 = 0.419, p = 0.01$), and performance relative to family goals ($R^2 = 0.086, p = 0.05$).
Table 4. Results of regression analysis of top management team congruence and organization performance.

<table>
<thead>
<tr>
<th>MT degree of centrality:</th>
<th>H2.1 Financial Performance</th>
<th>H2.1 Financial Performance</th>
<th>H2.1 Performance — Corporate Social:</th>
<th>H2.1 Performance — Family Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception of firm’s culture</td>
<td>0.044**</td>
<td>0.041*</td>
<td>0.037*</td>
<td>0.038***</td>
</tr>
<tr>
<td>Company size</td>
<td>0.000***</td>
<td>0.000***</td>
<td>0.000***</td>
<td>0.000***</td>
</tr>
<tr>
<td>Intercept</td>
<td>2.052***</td>
<td>0.367**</td>
<td>0.159**</td>
<td>0.129**</td>
</tr>
<tr>
<td>R²</td>
<td>0.321</td>
<td>0.201</td>
<td>0.425</td>
<td>0.465</td>
</tr>
<tr>
<td>F</td>
<td>1.42***</td>
<td>0.752**</td>
<td>2.244*</td>
<td>2.2605***</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MT degree of centrality: Commitment to firm’s vision</th>
<th>H2.1 Financial Performance</th>
<th>H2.1 Financial Performance</th>
<th>H2.1 Performance — Corporate Social:</th>
<th>H2.1 Performance — Family Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company size</td>
<td>0.123**</td>
<td>0.107</td>
<td>0.045*</td>
<td>0.075*</td>
</tr>
<tr>
<td>Intercept</td>
<td>1.229***</td>
<td>1.137***</td>
<td>-0.546</td>
<td>1.941</td>
</tr>
<tr>
<td>R²</td>
<td>0.556</td>
<td>0.221</td>
<td>0.419</td>
<td>0.086</td>
</tr>
<tr>
<td>F</td>
<td>3.754*</td>
<td>0.853**</td>
<td>2.098***</td>
<td>1.701*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MT degree of centrality: Commitment to firm’s goals</th>
<th>H2.1 Financial Performance</th>
<th>H2.1 Financial Performance</th>
<th>H2.1 Performance — Corporate Social:</th>
<th>H2.1 Performance — Family Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company size</td>
<td>0.078*</td>
<td>0.113*</td>
<td>0.060**</td>
<td>0.079**</td>
</tr>
<tr>
<td>Intercept</td>
<td>0.558**</td>
<td>-0.158*</td>
<td>1.206**</td>
<td>0.016(3.882)</td>
</tr>
<tr>
<td>R²</td>
<td>0.224</td>
<td>0.092</td>
<td>0.151</td>
<td>0.369</td>
</tr>
<tr>
<td>F</td>
<td>0.865**</td>
<td>0.302*</td>
<td>0.534**</td>
<td>1.757*</td>
</tr>
</tbody>
</table>

*p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001 (1-tailed), n = 45

Finally, Hypothesis 3.3, which argues the degree of MT congruence is positively related to financial performance relative to industry ($R^2 = 0.224$, $p = 0.01$), financial performance relative to goals ($R^2 = 0.092$, $p = 0.05$), performance in terms of corporate social responsibility ($R^2 = 0.151$, $p = 0.01$), and performance relative to family goals ($R^2 = 0.369$, $p = 0.05$), was also supported. So MT congruence has a positive relationship with performance outcomes.

5. Discussion

5.1. Overview

Based on previous findings (Athanassiou et al., 2002), we anticipated that high founder centrality in a family firm would result in a congruent MT, and that this congruence would have a positive influence on firm performance. This result was not supported in the data.
Table 5. Summary of hypothesis and findings.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 FC is positively related to congruence among MT regarding perception of culture.</td>
<td>Significant negative relationship</td>
</tr>
<tr>
<td>1.2 FC is positively related to congruence among MT regarding perception of firm’s strategic vision.</td>
<td>Significant negative relationship</td>
</tr>
<tr>
<td>1.3 FC is positively related to congruence among MT regarding perception of firm’s strategic goals.</td>
<td>Significant negative relationship</td>
</tr>
<tr>
<td>2.1 FC with respect to culture will be positively related to organization performance</td>
<td>Significant negative relationship</td>
</tr>
<tr>
<td>2.2 FC with respect to vision will be positively related to organization performance</td>
<td>Significant negative relationship</td>
</tr>
<tr>
<td>2.3 FC with respect to commitment to firm goals will be positively related to organization performance</td>
<td>Significant negative relationship</td>
</tr>
<tr>
<td>3.1 Congruence of MT’s perception of firm’s culture will be positively related to organizational performance</td>
<td>Significant positive relationship</td>
</tr>
<tr>
<td>3.2 Congruence of MT’s perception of firm’s strategic vision will be positively related to organizational performance</td>
<td>Significant positive relationship</td>
</tr>
<tr>
<td>3.3 Congruence of MT’s perception of firm’s commitment to strategic goals will be positively related to organizational performance</td>
<td>Significant positive relationship</td>
</tr>
</tbody>
</table>

from Kenyan family businesses. Although the relationship between MT congruence and performance was positive, there appears to be a negative relationship between founder centrality and group congruence and a similarly negative influence of the founder centrality on firm performance. This appears to contradict previous data and findings in the Mexican context (Athanassiou et al., 2002) and the authors suggest further study, particularly in the sub-Saharan context. These results suggest under certain circumstances, founder centrality can work as a negative factor with respect to performance in spite of the conventional expectation of a positive relationship between high founder centrality and MT congruence (Trulsson, 2002).

5.2. “Excessive” founder centrality?

According to Hofstede’s (2001) model of national cultural differences, Kenya rates very high in power distance (64) and low in individualism (27) (O’Driscoll et al., 2003; Hofstede, 1980a). We will examine whether this cultural pattern in Kenya could account for the unexpected results with respect to the relationship of founder centrality and MT congruence to performance in Kenyan family firms. In other words, if a disproportionate amount of power is centralized in the founder (Huy, 2001; Okpala and Jonsson, 2002) in a culture like Kenya’s, where individualism is rated low in comparison to collectivism, could this result in a performance deficit in spite of results showing a positive relationship between MT congruence and performance? If the answer is yes, what are the possible explanations, and what are the implications for family firms in countries like Kenya?

In the Kenyan context, the family enterprise is frequently driven by family patterns, values, and considerations about people (Hughes, 2001; Lee and Peterson, 2000). How does
this translate into relationships within the business between the founder and his managers? MTMT.

High power distance is a prevalent Kenyan culture, and this could explain a type of congruence not supported in the research data. Power distance is defined as the extent to which the less powerful members of institutions and organizations expect and accept that power is distributed unequally (Hofstede, 2001). According to the managers, if MT members go to the founder for information and advice, it is probably because the founder is revered, respected, and feared for cultural reasons, not because they necessarily value his or her business judgment. MT members feel they cannot openly contradict or question any of the founder’s ideas. Consequently, differing perceptions are not aired openly, and the process of dialogue and discussion that could lead to a greater strategic buy-in by top managers gets short-circuited.

A display of congruence on the perceptions of culture and strategic vision, as well as commitment to goals by the MT members may not actually reflect the true positions and thinking of the MT members. This “show” of congruence is collectively arrived at not from free exercise of sound strategic judgment by the top managers, but rather through culture-bound posturing triggered by the centralized power of the founder. This distortion of the strategy-formulation process suggests founder centrality in Kenya might actually block the open sharing and discussion that could lead to a meaningful consensus and “real” congruence with respect to strategic issues. This blocking process, similar to the phenomenon of executive silence (Morrison and Milliken, 2000), could have a negative impact on performance.

Another important issue may be the effect of social and economic conditions on the dynamic of the MT in Kenyan family businesses. Low salaries, poverty, and other social problems prevent members of the MT from concentrating fully on the business. The fact that, they do not expect to be consulted by the founder supports their predisposition to devote their time to issues outside the family business. Many MT members have positions in other organizations in addition to their MT role in the family firm. These competing priorities can dilute their ability to pull together as a team in the family firm (Harvey et al., 2002).

The present research suggests founder centrality has a significant negative effect on MT congruence and decision making in Kenyan family firms. However, MT congruence does have a significant positive effect on the family firm’s attainment of goals relating to financial, social, and family-welfare performance (Renzulli et al., 2000; Garguilo and Benassi, 2000; Gudmundson et al., 1999). Thus, the study confirms prior research (Ancona and Caldwell, 1992) suggesting the MT functions as a social network and the dynamic among members affects performance. Clearly, founders are important in shaping the strategic behavior of the MT. Our findings should help family business researchers and practitioners study developing countries to understand how founders influence MT’s key strategic dimensions, and how this may impact various performance objectives and outcomes (Hall et al., 2001).

Schein (1983) suggested founders “have a major impact in how the (organization) solves its external survival and internal integration problems.” We argue that family founders have a significantly influential role in the development and ongoing maintenance of an organization’s vision and culture. Among Kenyan firms, these founders are instrumental in
the definition of organizational objectives, the establishment of corporate cultural norms, and the setting of strategy. However, owing to some effects of very high collectivism and power distance, the Kenyan family business founder leadership style appears to have had a negative effect on MT congruence and ultimately firm performance. This research confirms that an exaggerated founder centrality negatively impacts firm performance in the Kenyan family firm context.

Further research exploring the context of environmental uncertainty would likely provide greater insight into the optimal level of founder centrality in the Kenyan family firm context and in those of other developing countries (Galbraith, 1973).

Finally, this paper integrates the social network perspective with the family business literature. Kenyan cases of perhaps imposed congruence could be typical of MT exchanges in high power distance and highly collectivist cultures. This research demonstrates how founder centrality manifests itself in a non-Western style of leadership that is valued and found in many developing nations. We could characterize this excessive founder centrality as a form of paternalism found within some developing countries. These results also emphasize the importance of MT congruence to the success of the strategy process (Pegels et al., 2000) and to the achievement of performance goals, even taking into consideration the negative effects of founder centrality.

5.3. Practical applications

These findings also suggest that the organizational culture of family firms may be more readily influenced than previously believed, and the social influence process (Bunderson, 2003; Jenssen and Greve, 2002; Rindova and Fombrun, 1999) significantly affects that strategy.

Family businesses are complex entities with specific challenges. The context of a developing country with its own cultural imperatives adds to the difficulty of maintaining equilibrium between business and family demands. We have shown that a level of founder centrality enhanced by local traditions and cultural values can have a negative influence on the family firm. This negative influence might be mitigated if founders/CEOs could be made aware of the counterproductive influence of cultural values such as collectivism and power distance. Both founders/CEOs and managers would have to be trained, for the benefit of the firm, to fully engage in an open and free exchange of ideas and not to concede to a forced consensus based on pleasing the founder. The goal would be a true MT congruence achieved and motivated by the free exchange of ideas that leads to higher-order solutions.

The study particularly shows practitioners in family firms in developing countries need to pay particular attention to the role of culture and how it affects MT collaboration, information sharing, and congruence in their joint decision-making. Many developing countries have the high power distance/high collectivism. Therefore, the findings in Kenya may in fact be relevant to many other developing country contexts.

One approach to achieving change might be the use of multicultural leadership training to expose top managers in family firms in developing countries to variant MT models that allow for greater flexibility and range of options for these leaders and managers. This could
enlarge the repertoire of leadership styles. Such education and training would allow for selection among a wider range of leadership options not necessarily tied to the national culture. In this way, founders can build on strengths present in family businesses and yet, avoid the pitfalls of the enforced congruence that is more for show than a true reflection of the strategic reasoning and perspectives of the members.

5.4. Limitations and areas of further investigation

Some of the limitations of the study include the focus only on small and medium-sized family businesses. In Kenya, there are some compelling examples of large companies run by families, such as Sameer, Nakumatt, Bidco Oil Refineries, I&M and Brookside Dairies. It would be intriguing to see if the same dynamic is playing out in these larger family firms. One would think the managers in these larger family firms would have been exposed to more education and training, and therefore, would have a larger repertoire of leadership and interaction skills with the top management team, a leadership style that would not be strictly limited by the cultural model of Kenya.

In this research, we focused on founder centrality and its effect on MT congruence and firm performance. We assumed the founder/CEO had the highest level of individual centrality. However, it should be noted there are situations where a manager other than the founder could have the highest centrality and therefore, the greatest effect on group congruence. It would not be overly difficult to test if there were other members of the top management team with a higher-level centrality and determine whether this had a different effect on the relationship with performance and MT congruence. A related question would be whether those firms in which the founder is most central perform better than those in which another manager is more central. Also, all of the data is based on self-report and therefore, is subject to biases.

We also did not distinguish family businesses by industry or business type. It would be of interest to look at different industries, in particular those that have a higher level of environmental turbulence, dynamism, or munificence, to see the different effects of founder centrality. Specifically, in those more dynamic or high-turbulence industries, we would expect a more negative impact of founder centrality.

In a more dynamic environment, it is especially imperative that the CEO is open to the diverse perspectives among the MT and that the members of the MT engage in divergent thinking derived from their own large and diverse social network.

Another limitation is the study was strictly cross-sectional in nature. It would be interesting to see how the dynamic of founder centrality and its effect on congruence and performance played out over time. Does the lifecycle of these firms or the stage of life of the founder influence how this dynamically changes over time? It would also be interesting to look at the second or third generations of family businesses, and not just those run by the founder.

The conclusions of this research may be applicable to other developing countries, especially those with higher power distance and collectivist cultures. However, we would caution that developing countries differ significantly in terms of their stage of development.
We can perhaps say that the Kenya sample will be similar to other East African countries such as Ethiopia, Tanzania and Zambia. Hofstede (1980b) grouped these countries together with Kenya because they have similar cultural characteristics. Kenya, however, is at a higher stage of economic development than most of the other African continent countries, so we cannot generalize these findings to African family business management teams in general.

References


